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**19 DEC 2019**

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LBI LEASING LIMITED

Annual report and financial statements for the year ended 31 March 2019

Member of Lloyds Banking Group plc

Registered Number: 00747346



DIRECTORS

C G Dowsett  
K Turner  
J R Turner

COMPANY SECRETARY

A E Mulholland

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP  
Atria One  
144 Morrison Street  
Edinburgh  
EH3 8EX

REGISTERED OFFICE

25 Gresham Street  
London  
EC2V 7HN

## DIRECTORS' REPORT

The directors present their report and audited financial statements of the LBI Leasing Limited ("the company") for the year ended 31 March 2019.

The company qualifies as a small company in accordance with Sections 381-382 of the Companies Act 2006 ("the Act") and the directors' report has therefore been prepared taking into consideration the provisions of Part 15 of the Act.

## REVIEW OF BUSINESS

During the year, the principal activity of the company was the management of financial assets and liabilities and this is likely to continue for the foreseeable future.

The results of the company show a profit before taxation of £166,000 (2018: £2,985,000 loss) for the year as set out in the statement of comprehensive income on page 6.

The company has shareholder's equity of £1,792,000 (2018: £1,657,000).

## DIVIDENDS

The directors did not authorise or pay any dividends during the year (2018: £nil).

## DIRECTORS

The names of the directors of the company are shown on page 2. The following changes in directors have taken place during the year and since the year end:

	Appointed	Resigned/ceased to be a director
J R Turner	31 October 2019	-
G A Fox		28 June 2018

No director had any interest in any material contract or arrangement with the company during or at the end of the year.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 418 of the Act, in the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## DIRECTORS' INDEMNITIES

Lloyds Banking Group plc ("LBG") has granted to the directors of the Company, including former directors who resigned during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Act. The deed was in force during the whole of the financial year and at the date of approval of the financial statements (or from the date of appointment in respect of the LBG Director who joined the Board of the Company during the financial year). Directors no longer in office but who served on the board of the company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of an LBG Director's period of office. The deed indemnifies the LBG Directors to the maximum extent permitted by law. The deed for existing LBG Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, Lloyds Banking Group (the "Group") has in place appropriate LBG Directors and Officers Liability insurance cover which was in place throughout the financial year..

## INDEPENDENT AUDITORS' APPOINTMENT

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Act.

**DIRECTORS' REPORT (continued)**

**PRINCIPAL RISKS AND UNCERTAINTIES**

From the perspective of the company, the principal risks and uncertainties are managed within the framework established for the Lloyds Banking Group plc group of companies ("the Group") and are not managed separately. For further details please refer to note 11 'Risk management of financial instruments' in these financial statements.

**KEY PERFORMANCE INDICATORS ('KPIs')**

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

On behalf of the board



C G Dowsett  
Director

Date: 18 December 2019

# ***Independent auditors' report to the members of LBI Leasing Limited***

## **Report on the audit of the financial statements**

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### **Opinion**

In our opinion, LBI Leasing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 March 2019; the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Shareholder's Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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### **Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

#### *Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report.

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### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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### **Entitlement to exemptions**

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Mark Hoskyns-Abraham (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
18<sup>th</sup> December 2019

STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 March 2019

	Note	2019 £000	2018 £000
Finance income	2	-	144
Finance costs	3	<u>166</u>	<u>(462)</u>
		166	(318)
Loss on disposal of leased assets	4	-	(2,637)
Other operating expenses	5	<u>-</u>	<u>(30)</u>
<b>Profit/(loss) before taxation</b>		166	(2,985)
Taxation (charge)/credit	6	<u>(31)</u>	<u>59</u>
<b>Profit/(loss) after taxation and total comprehensive income for the year attributable to owners of the parent</b>		<u><u>135</u></u>	<u><u>(2,926)</u></u>

The accompanying notes on pages 10 to 17 are an integral part of the Financial Statements.

There is no Other Comprehensive Income for the current or prior year.

BALANCE SHEET  
As at 31 March 2019

	Note	2019 £000	2018 £000
<b>Assets</b>			
<b>Current assets</b>			
Trade and other receivables		-	5
Cash and cash equivalents	7	<u>4,806</u>	<u>13,786</u>
<b>Total current assets</b>		<u>4,806</u>	<u>13,791</u>
<b>Total assets</b>		<u>4,806</u>	<u>13,791</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax liability	9	<u>-</u>	<u>-</u>
<b>Total non-current liabilities</b>		<u>-</u>	<u>-</u>
<b>Current liabilities</b>			
Amounts owed to group companies	8	3,014	11,968
Trade and other payables		<u>-</u>	<u>166</u>
<b>Total current liabilities</b>		<u>3,014</u>	<u>12,134</u>
<b>Total liabilities</b>		<u>3,014</u>	<u>12,134</u>
<b>Equity</b>			
Share capital	10	-	-
Retained earnings		<u>1,792</u>	<u>1,657</u>
<b>Total equity</b>		<u>1,792</u>	<u>1,657</u>
<b>Total liabilities and equity</b>		<u>4,806</u>	<u>13,791</u>

The financial statements on pages 6 to 17 were approved by the Board of Directors on 18 December 2019 and signed on its behalf by:



**C G Dowsett**  
Director

Registered Number: 00747346

The accompanying notes on pages 10 to 17 are an integral part of the Financial Statements.



## STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital £000	Retained earnings £000	Total equity £000
<b>Balance at 1 April 2017</b>		-	4,583	4,583
<b>Total comprehensive expense for the year</b>			(2,926)	(2,926)
Loss for the year		-		
<b>Balance at 31 March 2018</b>	10	-	1,657	1,657
<b>Total comprehensive income for the year</b>				
Profit for the year		-	135	135
<b>Balance at 31 March 2019</b>	10	-	1,792	1,792

The accompanying notes on pages 10 to 17 are an integral part of the Financial Statements.

CASH FLOW STATEMENT  
For the year ended 31 March 2019

	Note	2019 £000	2018 £000
<b>Profit/(Loss) before taxation</b>		166	(2,985)
Decrease in Other debtors and trade and other receivables		5	62,854
(Decrease)/increase in interest payables		<u>(166)</u>	<u>341</u>
<b>Cash generated by operations</b>		5	60,210
Tax paid		<u>(8,985)</u>	<u>(3,339)</u>
<b>Net cash flow from operating activities</b>		<u>(8,980)</u>	<u>56,871</u>
<b>Financing activities</b>			
Decrease in bank borrowings		<u>-</u>	<u>(50,449)</u>
<b>Net cash flow used in financing activities</b>		<u>-</u>	<u>(50,449)</u>
Net (decrease)/increase in cash and cash equivalents		(8,980)	6,422
Cash and cash equivalents at beginning of the year		<u>13,786</u>	<u>7,364</u>
<b>Cash and cash equivalents at end of the year</b>		<u><u>4,806</u></u>	<u><u>13,786</u></u>
Cash and cash equivalents are comprised of:			
Cash at bank	7	<u>4,806</u>	<u>13,786</u>
		<u><u>4,806</u></u>	<u><u>13,786</u></u>

The accompanying notes on pages 10 to 17 are an integral part of the Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

**1 Accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention.

The financial statements have been prepared in accordance with Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006.

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

- i. IFRS 9 'Financial Instruments': Annual improvement to IFRSs (issued December 2016) - Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle based approach than IAS 39.

The financial statements have been prepared on the going concern basis which assumes that the company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the continuing financial support provided by Lloyds Bank plc. After making appropriate enquiries, the directors believe that it is appropriate for the financial statements to be prepared on the going concern basis.

**1(a) Income and expense from financial instruments**

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment.

**Lease classification**

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee; all other leases are classified as operating leases.

When assets are leased under a finance lease, the net present value of the lease payments plus any guaranteed residual value payments, where applicable, is recognised as a receivable within Loans and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income.

**Finance lease income**

Finance lease income is recognised over the lease term using the net investment method so as to reflect a constant periodic rate of return on the Company's net investment in the lease. Initial direct incremental costs attributed to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable thus reducing the amount of income recognised over the lease term.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the agreement but not future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return such as acceptance and, where relevant, early settlement fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

**1(b) Financial assets and liabilities**

Financial assets comprise Cash and cash equivalents. Financial liabilities comprise Amounts due to group undertakings.

On initial recognition, financial assets and liabilities are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Group's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Group assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. The Group reclassifies financial assets and liabilities when and only when its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the Group's operations and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Group has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Group has neither retained nor transferred substantially all of the risks and rewards, but has transferred control.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

## NOTES TO THE FINANCIAL STATEMENTS

**1 Accounting policies (continued)****1(c) Impairment**

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

The company has not adopted the simplified expected credit loss model for its lease receivables, as allowed by IFRS 9, paragraph 5.5.15. Instead, the general expected credit loss model has been applied to both, financial assets and lease receivables.

**1(d) Taxation, including deferred income taxes**

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Statement of comprehensive income except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Statement of comprehensive income (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the Balance Sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each Balance Sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Balance Sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the Balance Sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint arrangements where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

**1(e) Dividends**

Dividends are recognised in equity only when the company has the obligation to pay the ordinary shareholder.

**1(f) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with original maturities of less than three months.

**1(g) Fair value**

The fair value of finance lease receivables is derived from a present value cash flow model of expected cash flows from the lease using current market interest rates and margin for the risks inherent in the lease.

**1(h) Foreign currency translation**

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in pounds sterling, which is the company's functional and presentation currency.

**1(i) Critical accounting estimates and judgements in applying accounting policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

In the course of preparing these financial statements, no critical judgements have been made in the process of applying the company's accounting policies, other than those involving estimations which are disclosed separately below.

## NOTES TO THE FINANCIAL STATEMENTS

**1 Accounting policies (continued)****1(i) Critical accounting estimates and judgements in applying accounting policies (continued)**

The following are critical accounting estimates that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

**Deferred Tax**

Estimation of income taxes includes the assessment of recoverability of deferred tax assets. Deferred tax assets are only recognised to the extent they are considered more likely than not to be recoverable based on existing tax laws and forecasts of future taxable profits against which the underlying tax deductions can be utilised.

**Allowance for impairment losses**

In the year under IFRS 9, the Company's accounting policy for impairment on the lease receivables is described in note 1.

The calculation of the Company's expected credit loss (ECL) allowances and provisions against financial assets and lease receivable balance under IFRS 9 requires the Company to make a number of judgements, assumptions and estimates. The most significant are set out below.

**- Definition of default**

The probability of default ("PD") of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

**- Lifetime of an exposure**

The PD of a financial asset is dependent on its expected life. A range of approaches, segmented by product type, has been adopted by the Company to estimate a product's expected life. These include using the full contractual life and taking into account behavioural factors such as early repayments and lease extensions. Changes to the assumed expected lives of the Company's assets could have a material effect on the ECL allowance recognised by the Company.

**- Significant increase in credit risk**

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition.

The Company uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. Financial assets and lease receivables are assumed to have suffered a SICR if they are more than 30 days past due.

The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

**- Origination PDs**

The assessment of whether there has been a significant increase in credit risk is a relative measure, dependent on an asset's PD at origination. For assets existing at 1 January 2018, the initial application date of IFRS 9, this information is not, generally, available and consequently management's judgement has been used to determine a reasonable basis for estimating the original PD.

**Origination PDs (continued)**

Management used various information sources, including regulatory PDs and credit risk data available at origination, or where this is not available the first available data. In addition, the Company has not created a forward looking view of PDs at initial recognition for the back book as to do so would involve the use of hindsight and could introduce the risk of bias. Where applicable, the use of proxies and simplifications is not considered to materially impact the ECL allowance on transition.

**2 Finance income**

	2019 £000	2018 £000
Finance lease income	-	144
	-	144

Finance lease income represents the income component of finance lease receivables earned in the year, being finance lease rentals less capital repayment.

**3 Finance costs**

	2019 £000	2018 £000
Group interest expense	166	(462)
	166	(462)

## NOTES TO THE FINANCIAL STATEMENTS

**4 Loss on disposal of leased assets**

	2019 £000	2018 £000
Loss on disposal of leased assets	-	(2,637)
	-	(2,637)

**5 Other operating expenses**

Other operating expenses comprise professional fees relating to the termination of finance leases during 2018.

Fees payable to the Company's auditors for the audit of the financial statements of £4,500 (2018: £4,500) have been borne by the ultimate parent company and are not recharged to the Company.

**6 Taxation charge**

	2019 £000	2018 £000
a) Analysis of charge for the year		
UK corporation tax:		
Current tax payable on profit/(loss) for the year	(31)	(8,985)
UK deferred tax:		
- Origination and reversal of timing differences	-	9,546
- Due to change in UK corporation tax rate	-	(502)
Deferred tax credit (see note 9)	-	9,044
Tax (charge)/credit	(31)	59

Corporation tax is calculated at a rate of 19% (2018: 19%) of the taxable profit/(loss) for the year:

	2019 £000	2018 £000
Profit/(loss) before taxation	166	(2,985)
Tax at standard rate of corporation tax	(31)	567
Impact of tax rate change (note 9)		
- Origination and reversal of timing differences	-	(6)
- Due to change in UK corporation tax rate	-	502
Total taxation result/charge	(31)	59
Effective rate	19%	2%

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020

**7 Cash and cash equivalents**

	2019 £000	2018 £000
Cash at bank (see note 12)	4,806	13,786
	4,806	13,786

**8 Amounts owed to group companies**

	2019 £000	2018 £000
Interest payable (see note 12)	2,983	2,983
Tax payable	31	8,985
	3,014	11,968

## NOTES TO THE FINANCIAL STATEMENTS

**9 Deferred tax liability**

	2019 £000	2018 £000
At beginning of the year	-	(9,044)
Deferred taxation credit for the year	-	9,044
Impact of tax rate change	-	-
At end of the year	-	-

The deferred taxation charge in the Statement of Comprehensive Income comprises the following temporary differences:

	2019 £000	2018 £000
Accelerated capital allowances	-	(9,044)

Deferred taxation assets are comprised as follows:

	2019 £000	2018 £000
Accelerated capital allowances	-	-

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

**10 Share capital**

	2019 £	2018 £
Allotted, issued and fully paid 100 ordinary shares (2018: 100) of £1	100	100

The company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholder through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The company's parent manages the company's capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company's parent may adjust the amount of dividends to be paid to the shareholder, return capital to the shareholder, issue new shares, or enter into debt financing.

The company's capital comprises all components of equity, movements in which appear in the statement of changes in Shareholder's Equity.

**11 Risk management of financial instruments**

receivables is managed through the application of strict underwriting criteria, determined by the Groups credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis. Impairment provisions are provided for losses expected to be incurred at the Balance sheet date, using the basis of assessment discussed in note 1(c) and 1 (i).

The credit risk associated with amounts due from group undertakings is not considered to be significant.

**Credit risk mitigation**

- Credit principles and policy: Group Risk sets out the group credit principles and policy according to which credit risk is managed, which in turn is the basis for divisional and business unit credit policy. Principles and policy are reviewed regularly and any changes are subject to a review and approval process. Business unit policy includes lending guidelines, which define the responsibilities of lending officers and provide a disciplined and focused benchmark for credit decisions.
- Concentration risk: Credit risk management includes portfolio controls on certain industries, sectors and product lines that reflect risk appetite and which operate at a divisional level. Credit policy is aligned to risk appetite and restricts exposure to certain high risk and more vulnerable sectors. At a divisional level, exposures are monitored to prevent excessive concentration of risk. These concentration risk controls are not necessarily in the form of a maximum limit on lending but may instead require new business in concentrated sectors to fulfil additional hurdle requirements.
- Stress testing and scenario analysis at a divisional level: The credit portfolio is also subjected to stress testing and scenario analysis, to simulate outcomes and calculate their associated impact.

The maximum credit risk exposure of the company in the event of other parties failing to perform their obligations is detailed below. The maximum exposure to loss is considered to be the Balance Sheet carrying amount as at 31 March.

	2019 £000	2018 £000
Financial assets which are neither past due nor impaired for credit risk:		
Cash and cash equivalents	4,806	13,786
Total credit risk exposure	4,806	13,786

## NOTES TO THE FINANCIAL STATEMENTS

**11 Risk management of financial instruments (continued)****Credit risk (continued)**

Credit risk management is performed by various committees established by its ultimate parent, Lloyds Banking Group plc. Each lease or loan is assessed for credit risk prior to approval and assigned a credit rating based on the credit risk rating methodology and management policy of the Lloyds Banking Group plc. Credit ratings of the lease counterparties are monitored, where necessary revised, over the life of the lease. The table below reflects the credit rating of the financial assets portfolio net of any financial guarantees received.

**Financial assets by credit rating:**

	AAA	AA	A	BBB	Rated BB or lower	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 March 2019							
Cash and cash equivalents	-	-	4,806	-	-	-	4,806
Total	-	-	4,806	-	-	-	4,806
At 31 March 2018							
Cash and cash equivalents	-	-	13,786	-	-	-	13,786
Total	-	-	13,786	-	-	-	13,786

At the Balance Sheet date the company assesses if there is objective evidence that the financial assets have become impaired. Evidence of impairment may include indications that the counterparty is experiencing financial difficulty, default or delinquency in settlements of amounts due or debt restructurings to reduce the financial burden on the counterparty.

At 31 March 2019 and 2018 there were no impairments relating to credit risk against any financial assets. The credit risk exposure under short-term debtors, deposits and other financial assets are represented by the book values in the above table.

**Liquidity risk management:**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.

The liquidity profile of financial liabilities at year end was as follows:

	Other liabilities £000	Total Liabilities £000
At 31 March 2019		
On demand	31	31
Up to 1 month	-	-
1-3 months	-	-
3-12 months	2,983	2,983
1-5 years	-	-
Over 5 years	-	-
Total	3,014	3,014
At 31 March 2018		
On demand	9,151	9,151
Up to 1 month	-	-
1-3 months	-	-
3-12 months	2,983	2,983
1-5 years	-	-
Over 5 years	-	-
Total	12,134	12,134

The fair value of current liabilities approximates their carrying values.

**Interest rate risk management:**

Interest rate risk is the risk that the future cash flows and fair values of a financial instrument may fluctuate because of changes in market interest rates.



## NOTES TO THE FINANCIAL STATEMENTS

**11 Risk management of financial instruments (continued)**

Interest rate risk management (continued):

The company takes into account the exposure on fluctuations in the prevailing levels of market interest rates on its cash flows when structuring its operations by ensuring the interest terms of its finance income is matched to the variable interest terms of the borrowing used to finance the leasing portfolio. As such the company has no material exposure to financial risk arising from changes in market interest rates. Interest rate risk is hedged using interest rate swaps.

Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company's transactions are all denominated in pounds sterling as such the company has no exposure to foreign currency risk

**12 Related parties**

The company's immediate parent company is Lloyds Bank Leasing Limited. The company regarded by the directors as the ultimate parent company and ultimate controlling party is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, which is also the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the company is a member. Lloyds Bank plc is the parent company of the smallest such group of undertakings. Copies of the group financial statements may be downloaded via [www.lloydsbankinggroup.com](http://www.lloydsbankinggroup.com).

The company's related parties include other companies in the Group and the company's key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company, which is determined to be the company's directors, who are listed on page 1 of these financial statements.

In respect of related party transactions, the outstanding balances receivable/(payable) at 31 March were as follows:

Nature of transaction	Related party	Related party relationship	2019	2018	Terms and conditions
Cash at bank	Lloyds Bank plc	Intermediate parent undertaking	4,806	13,786	No fixed date
Tax payable	Lloyds Bank plc	Fellow subsidiary undertaking	(31)	(8,985)	No fixed date
Interest payable	Lloyds Bank plc	Intermediate parent undertaking	(2,983)	(2,983)	No fixed date
					0%
					0%
					0%
					Repayment
					Interest

There were no doubtful debts or bad debt expenses relating to the above balances incurred during the year.

Finance costs of £nil (2018: £ 296,000) were incurred during the year

The company paid taxation of £8,985,000 (2018: £3,339,000) during the year to fellow subsidiary undertakings.

The registered offices of related parties are as noted below:

Related party	Registered address
Lloyds Bank PLC	25 Gresham Street, London, EC2V 7HN

**13 Implementation of IFRS9 Financial Instruments**

This note explains the impact of the adaptation of IFRS 9 Financial Instruments on the Company's financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of the financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost.

Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cashflows, and their contractual cashflows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by collecting contractual cashflows and selling financial assets and their contractual cashflows represent solely payments of principal and interest. Financial assets not meeting either of these two business models, and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit and loss.

An entity may, at initial recognition, designate a financial asset as measures at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch.

Impairment

IFRS 9 replaces the existing "incurred loss" impairment approach with an expected credit loss ("ECL") model resulting in earlier recognition of credit losses compared with IAS 39. The ECL model has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that an asset is credit impaired, which is similar to the guidance on incurred losses in IAS 39.

## NOTES TO THE FINANCIAL STATEMENTS

**13 Implementation of IFRS9 Financial Instruments (continued)****Impact on the financial statements**

The Company has adopted IFRS 9 from 1 April 2018. In accordance with the transition requirements of IFRS 9, comparative information for the previous year has not been restated and transitional adjustments have been accounted for through retained earnings as at 1 April 2018.

As at the balance dates 31 March 2018 and 31 March 2019 the financial asset held by the entity comprises of cash at bank held by the parent company on behalf of the company. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The company has conducted an analysis of these changes and does not consider there to be any significant impact of applying IFRS 9 to the financial statements.

**14 Future developments**

The following accounting standard changes will impact the company in the future financial years. Save as disclosed below, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the Financial Statements.

<u>Pronouncement</u>	<u>Nature of change</u>	<u>IASB effective date</u>
IFRS16; 'Leases'	The IASB has issued IFRS 16 to replace IAS 17 Leases which is effective for annual periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. This change will mainly impact the properties that the Group currently accounts for as operating leases. Lessor accounting requirements remain aligned to the current approach under IAS 17.	Annual periods beginning on or after 1 January 2019
	The impact of this pronouncement has been assessed by the Company with the view that the financial statements will not be materially impacted.	

**15 Contingent liabilities**

The Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £1,044,000 (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.